

## Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-13 ISO-00 SEC-01 ITC-01 AGRE-00  
CEA-01 CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-01  
INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05  
CIEP-01 SS-15 STR-04 TRSE-00 USIA-06 PRS-01 SP-02  
FEAE-00 OMB-01 XMB-02 OPIC-03 /114 W  
-----231841Z 109240 /46

R 200554Z DEC 76  
FM AMEMBASSY CANBERRA  
TO SECSTATE WASHDC 9528  
INFO AMCONSUL BRISBANE  
USDEL MTN GENEVA  
AMEMBASSY LONDON  
AMEMBASSY MELBOURNE  
USMISSION OECD PARIS  
AMCONSUL PERTH  
AMCONSUL SYDNEY  
AMEMBASSY TOKYO  
AMEMBASSY WELLINGTON

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SYDNEY ALSO PASS TRADE CENTER

E.O. 11652: N/A  
TAGS: EGEN, EFIN, EALR, AS  
SUBJECT: NOVEMBER 29 - DECEMBER 20 A\$ EXCHANGE RATE MOVES --  
RECAP

REF: (A) CANBERRA 8957, (B) CANBERRA 8885, (C) CANBERRA 8848  
(NOTAL), (D) CANBERRA 8838 (NOTAL), (E) CANBERRA 8766,  
(F) CANBERRA 8731 (NOTAL), (G) CANBERRA 8603 (NOTAL),  
(H) CANBERRA 8583 (NOTAL)

1. EXCEPT FOR THE LATEST OF THE "MORE FREQUENT AND SMALLER  
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SHIFTS IN A\$ RELATIONSHIP TO 'BASKET' OF CURRENCIES" (CANBERRA  
8609, THIS MESSAGE CONTAINS NO NEW DEVELOPMENTS ON THIS  
SUBJECT. ITS PURPOSE IS TO RECAP FOR END-USERS DEVELOPMENTS  
SCATTERED OVER THE PAST THREE WEEKS AND REPORTED INDIVIDUALLY  
IN WIDELY SEPARATED MESSAGES.

2. THE FOLLOWING APPEARS TO HAVE BEEN THE SEQUENCE OF ONE DEVALUATION AND THREE SUBSEQUENT REVALUATIONS AGAINST THE "BASKET OF CURRENCIES". BECAUSE THE GOA HAS DISCONTINUED FORMAL ANNOUNCEMENTS OF THESE INDIVIDUAL ADJUSTMENTS, THE LATEST, AND PRESUMABLY FUTURE ADJUSTMENTS CAN BE IDENTIFIED ONLY BY SPOTTING DAY-TO-DAY MOVEMENTS IN THE RATES ANNOUNCED BY THE RESERVE BANK OF AUSTRALIA FOR INDIVIDUAL CURRENCIES EXCEEDING THOSE TO BE EXPECTED UNDER THE OPERATION OF THE SO-CALLED "BASKET OF CURRENCIES". ON THIS BASIS, THE SEQUENCE HAS APPARENTLY BEEN NOVEMBER 29 - 17.5 PERCENT DEVALUATION (CANBERRA 8603), DECEMBER 7 - 2.42 PERCENT REVALUATION (CANBERRA 8838), DECEMBER 13 - 1.18 PERCENT REVALUATION (CANBERRA 8957), DECEMBER 17 - 0.5 PERCENT REVALUATION. THE CORRESPONDING MID-RATES FOR THE U.S DOLLAR INDIVUALLY ON THESE DATES WERE NOVEVENBER 29 - 1.0174, DECEMBER 7 - 1.0362, DECEMBER 13 - 1.0521, DECEMBER 17 - 1.0562.

3. A CALCULATION BASED ON THE NOVEMBER 26 MID-RATE FOR THE U.S. DOLLAR (DUS1.2329) AND THE CORRESPONDING MID-RATE FOR DECEMBER 17 (\$US1.0562) INDICATES THAT AS THE COMBINED RESULT OF (1) THE DEVALUATION AND SUBSEQUENT REVALUATIONSAND (2) THE DAILY VARIATIONS AMONG INDIVIDUAL CURRENCIES WITH THE "BASKET", THE AUSTRALIAN DOLLAR HAS DEPRECIATED 14.33 PERCENT IN TERMS OF THE U.S. DOLLAR SINCE NOVEMBER 26.

4. THE GOVERNMENT HAS BEEN WIDELY CRITICIZED FOR ITS REFUSAL TO ANNOUNCE A TETAILED RATIONALE OR SUPPORTING DATA FOR THESE ADJUSTMENTS. UNDER QUESTIONING BOTH IN AND OUT OF PARLIAMENT, GOVERNMENT SPOKESMEN HAVE CONFINED THEMSELVES TO LIMITED OFFICIAL USE

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REITERATING THE DESIRABILITY OF FREQUENT MODERATE ADJUSTMENTS AND A GENERALIZED RESTATEMENT OF SELF-EVIDENT ECONOMIC OBJECTIVES. THE ORIGINAL DEVALUATION WAS ATTRIBUTED IMPORTANTLY BY THE TREASURER TO THE SERIOUS EROSION OF AUSTRALIA'S RESERVES, AND MOST OBSERVERS ASSUME THAT THE SUBSEQUENT REVALUATIONS HAVE ALSO BEEN LARGELY MOTIVATED BY RESERVE CONSIDERATIONS. BUT TO DATE NO RATIONALE HAS BEEN STATED, NOR HAS ANY DETAILED INFORMATION ON FINANCIAL FLOWS BEEN RELEASED WHICH OBERVERS COULD USE TO VERIFY THIS ASSUMPTION. THERE IS ALSO CONSIDERABLE BUSIESS DISSATISFACTION WITH THE THREE-MAN COMMITTEE SYSTEM (SECRETARY OF THE TREASURY, SECRETARY OF THE PRIME MINISTER'S DEPARTMENT AND GOVERNOR OF THE RESERVE BANK) WHICH HAS BEEN ADOPTED TO RECOMMEND RATE CHANGES, A DISSATISFACTION HEIGHTENED BY THE ABSENCE OF ANY STATED TERMS OF REFERENCE. IN THEIR ABSENCE, THE BEST ASSUMPTION HAS BEEN THAT THE GOVERNMENT IN MOVING, THROUGH SUCCESSIVE REVALUATIONS, TO CORRECT FOR AN EXCESSIVE NOVEMBER 29 DEVALUATION, WHILE AT THE SAME TIME MARGINALLY

REDUCING THE PROBLEMS RESULTING FROM THE INADEQUACY OF OFFSETTING MEASURES ADOPTED TO DATE. IT IS ALSO GENERALLY BELIEVED THAT THIS REVALUATION PROCESS HAS NOT YET RUN ITS COURSE.

5. IN ADDITION TO DISSATISFACTION WITH THE NON-MARKET TYPE OF RATE-FIXING PROCEDURE, THERE IS WIDESPREAD CONCERN OVER THE LIMITED ACTION IN OTHER POLICY AREAS TO OFFSET THE EFFECTS OF THE DEVALUATION TO DATE. THE MAIN DEVELOPMENTS HAVE BEEN: (1) A VERY MODERATE INTEREST RATE INCREASE (CANBERRA 8731); (2) A LIMITED PROGRAM OF TARIFF REDUCTION, THE PRECISE EXTENT AND SIGNIFICANCE OF WHICH REMAINS TO BE REVEALED (CANBERRA 8885, CANBERRA 8766); (3) THE TREASURER'S DECEMBER 15 ANNOUNCEMENT THAT THE GOVERNMENT'S COMMITMENT TO LIMIT MONEY SUPPLY INCREASE TO A 10-12 PERCENT RANGE WOULD HAVE TO BE REVISED (THE TREASURER ACKNOWLEDGED IN SUBSEQUENT QUESTIONING THAT THE REVISION WOULD PRESUMABLY BE UPWARD); (4) THE GOVERNMENT'S DECEMBER 16 ANNOUNCEMENT THAT IT HAD LIMITED OFFICIAL USE

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IDENTIFIED \$A250 MILLION OF FURTHER REDUCTIONS IN FY 1977 FEDERAL GOVERNMENT EXPENDITURE (THE DETAILS OF THIS TOTAL WERE NOT ANNOUNCED AND ITS SIGNIFICANCE AND IMPACT REMAIN UNCERTAIN), AND (5) IN THE CRUCIAL AREA OF WAGES POLICY, NUMEROUS GOVERNMENT STATEMENTS POINTING TO "A FIRM LINE" ON FUTURE WAGE INCREASE (BUT NO DETAILS OF HOW THIS INTENTION IS TO BE CARRIED OUT HAVE BEEN REVEALED).

6. AUSTRALIAN BUSINESS CONCERN OVER WHAT MAY LIE AHEAD WITH RESPECT TO DEMAND, COSTS, AND LIQUIDITY ARE REFLECTED IN THE LATEST SURVEY OF BUSINESS EXPECTATIONS RELEASED TODAY JOINTLY BY THE BANK OF NEW SOUTH WALES AND THE ASSOCIATED CHAMBERS OF MANUFACTURES OF AUSTRALIA. THE SURVEY SHOWS A GLOOMY BUSINESS MOOD, THE MAJORITY OF BUSINESSMEN LOOKING FOR A DOWNTURN IN INVESTMENT DURING 1977. THIS SURVEY, WHICH WAS TAKEN DURING THE DECEMBER 1-14 PERIOD JUST AFTER THE DEVALUATION FOLLOWS THREE SUCCESSIVE PREVIOUS QUARTERLY SURVEYS IN WHICH BUSINESSMEN EXPECTED IMPROVING CONDITIONS. MEANWHILE, THE FIRST TANGIBLE EFFECTS OF DEVALUATION ARE BEING FELT AT THE CONSUMER LEVEL, IN THE FORM OF INCREASED TRAVEL FARES FOR OVERSEAS CHRISTMAS VACATIONS, AND A THREE CENT PER GALLON INCREASE IN THE RETAIL PRICE OF MOTOR GASOLINE TAKING EFFECT TODAY.

7. IN SUMMARY, AUSTRALIA ENTERS THE CHRISTMAS AND JANUARY VACATION SEASON AMID WIDESPREAD UNCERTAINTY OVER THE DIRECTION OF MAJOR ECONOMIC POLICIES, AND PESSIMISM OVER DOMESTIC BUSINESS PROSPECTS FOR 1977. IT APPEARS PROBABLE THAT THE GOVERNMENT WILL USE THE COMING SUMMER LULL FOR A THOROUGH RECONSIDERATION OF ITS ECONOMIC PROGRAM AND THAT

PARLIAMENT'S RETURN IN FEBRUARY MAY SEE MAJOR NEW DEVELOPMENTS  
IN THIS AREA.  
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## Message Attributes

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